

Reading Community Schools

Single Audit Report

Year Ended June 30, 2008



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards**

**Board of Education
Reading Community Schools
Reading, Michigan**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reading Community Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Reading Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as Finding 2008-1 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Board of Education
Reading Community Schools
Reading, Michigan

Internal Control Over financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Reading Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 9, 2008



**Report On Compliance with Requirements
Applicable To Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Education
Reading Community Schools
Reading, Michigan

Compliance

We have audited the compliance of Reading Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Reading Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Reading Community Schools' management. Our responsibility is to express an opinion on Reading Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reading Community Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Reading Community Schools' compliance with those requirements.

In our opinion, Reading Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Reading Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Reading Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reading Community Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated October 9, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Schools' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 9, 2008

Reading Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor Pass Through Grantor <u>Program Title/Grantor's Number</u> U.S. Department of Agriculture	Federal CFDA Number	Award/Grant Entitlement Program Amount	Accrued (Deferred) Revenue 7/1/2007	Prior Year Expenditures	Adjustments Prior Years	Current Year Cash Payment Received	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2008
Child Nutrition Cluster: Passed through MI Department of Education: National School Lunch Program								
Sec. 4 - All	10.555	\$ 21,609	\$ -	\$ -	\$ -	\$ 21,609	\$ 21,609	\$ -
Sec. 11 - Free and Reduced Snacks	10.555	119,843	-	-	-	119,843	119,843	-
Total National School Lunch Program	10.555	3,231	-	-	-	3,231	3,231	-
		144,683	-	-	-	144,683	144,683	-
National School Lunch Breakfast	10.553	41,997	-	-	-	41,997	41,997	-
National School Lunch Special Milk	10.556	469	-	-	-	469	469	-
Total Child Nutrition Cluster		187,149	-	-	-	187,149	187,149	-
Food Distribution: Entitlement Commodities Bonus Commodities	10.550	22,219	-	-	-	22,219	22,219	-
	10.550	N/A	-	-	-	-	-	-
		22,219	-	-	-	22,219	22,219	-
Total United States Department of Agriculture		209,368	-	-	-	209,368	209,368	-
U.S. Department of Education Passed through MI Department of Education: Title I:								
071530-0607	84.010	246,732	16,859	223,996	-	16,859	-	-
081530-0708	84.010	230,433	-	-	-	157,987	222,097	64,110
Total Title I	84.010	477,165	16,859	223,996	-	174,846	222,097	64,110
Title V: 080250-0708	84.298	1,686	-	-	-	1,686	1,686	-
Title IID: 074290-0607	84.318	2,299	173	2,299	-	173	-	-
084290-0708	84.318	2,166	-	-	-	2,026	2,166	140
Total Title IID	84.318	4,465	173	2,299	-	2,199	2,166	140

Reading Community Schools
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Award/Grant Entitlement Program Amount	Accrued (Deferred) Revenue 7/1/2007	Prior Year Expenditures	Adjustments Prior Years	Current Year Cash Payment Received	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/2008
U.S. Department of Education (Continued)								
Passed through MI Department of Education (Continued):								
Title II A:								
070520-0607	84.367	61,969	8,849	61,969	-	8,849	-	-
080520-0708	84.367	62,116	-	-	-	43,131	62,116	18,985
Total Title II	84.367	124,085	8,849	61,969	-	51,980	62,116	18,985
Service Provider Self Review:								
070440-0607	84.027	2,005	2,005	2,005	-	2,005	-	-
Total Passed Through MI Department of Education		609,406	27,886	290,269	-	232,716	288,065	83,235
Total United States Department of Education		609,406	27,886	290,269	-	232,716	288,065	83,235
U.S. Department of Human Service								
Passed through Hillsdale ISD								
081530-0708	93.778	20,168	-	-	-	20,168	20,168	-
		\$ 838,942	\$ 27,886	\$ 290,269	\$ -	\$ 462,252	\$ 517,601	\$ 83,235

Reading Community Schools
Notes to Schedule of Expenditures of Federal Awards

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Reading Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.

Expenditure Reports

Management has reconciled the expenditures reported in the Schedule of Expenditures of Federal Awards to those amounts reported in the annual or final cost reports.

Grant Section Auditor's Report

Management has utilized the Grant Section Auditor's Report (Form R-7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.

Reading Community Schools
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Material weakness identified? _____ yes X no
Significant deficiencies identified that are not
considered to be material weaknesses X yes _____ no
Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major programs:
Material weakness identified: _____ yes X no
Significant deficiencies identified that are not
considered to be material weaknesses _____ yes X no
Type of auditor's report issued on compliance
for major programs: Unqualified
Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of
Circular A-133. _____ yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.555	National School Lunch

Dollar threshold used to distinguish between
Type A and type B programs: \$ 300,000
Auditee qualified as low-risk X yes _____ no

Reading Community Schools
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings

2008-1 – Segregation of Duties

We noted that the District may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that one employee in the business office has access to all aspects of the accounts payable cycle, is responsible for maintenance of the general ledger, performs bank reconciliations, and processes ACH transactions. While this is a common occurrence in many Districts due to the limited number of employees, the District should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not separated. We recommend the District review various areas of operation and consider additional segregation of duties where possible and review procedures of the various processes.

Corrective Action Response:

Due to stagnant aid and cuts in our Michigan State Aid over the last several years, we have had to make major cuts in our operating expenses including reducing the number of employees in the business office. This reduction in personnel has led to our district business office consisting of one person. Therefore, until Michigan can adequately fund its school districts, this undesirable situation, lack of segregation of duties, will continue. The District does attempt to mitigate the risk of lack of segregation of duties, by having the Board of Education review and approve all accounts payable checks and monthly financial statements.

Section III – Federal Award Findings and Questioned Costs

None

Reading Community Schools
Comments on Resolution of Findings from June 30, 2007
Single Audit Report

Finding: There were no findings or questioned costs at June 30, 2007

Reading Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2008

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Independent Auditors' Report

Board of Education
Reading Community Schools
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reading Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Reading Community Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 9, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Reading Community Schools

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Reading Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 9, 2008

Reading Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

This section of the Reading Community Schools annual financial report represents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008, with comparative information for the prior fiscal year.

Financial Highlights

- The General Fund had a net change in fund balance of \$(86). At the end of the fiscal year, unreserved fund balance for the General Fund was \$264,848, or 3.5 percent of total General Fund expenditures and other financing uses. Total fund balance for the General Fund was \$308,943.
- The appropriations for the 2007-2008 budget are made in June 2007, before the start of the fiscal year. At that time, a budget with a yearly deficit of \$128,908 was adopted. This budget was based on a blended student count of 936, which is equal to the blended count for 2006-2007. However, the economy in Michigan is lagging far behind the rest of the nation and Hillsdale County has had many students moving out of Michigan as their parents are looking for work in different states. The actual blended student count for 2007-2008 was 912. This change in student count affected the budget by \$172,896.
- When the 2007-08 budget was adopted in June 2007, the State of Michigan had not yet passed the State Aid bill so the adopted budget included an estimated increase of \$60. Eventually, the State of Michigan State Aid per Pupil Foundation Allowance was increased by \$96 for a per pupil allowance of \$7,204 for the 2007-2008 school year. This change in per pupil allowance affected the budget by \$32,832.
- Other items affecting the budget for 2007-2008 are as follows: Energy conservation measures instituted by the school maintenance staff resulted in large savings for the District, and it was necessary to replace one of the boilers at the elementary school. All other modifications in the budget for 2007-2008 were normal fluctuations and were not significant.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the School District's most significant fund – the General Fund. All other funds are presented in one column as non-major funds.

Reading Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities - The district-wide statements report information about the District as a whole using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the School District's goal is to provide services to our students, not to generate profits as private-sector corporations do. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall financial health of the District, you need to consider additional non-financial factors such as the changes in the District's property tax base, political conditions at the State Capitol, student enrollment growth or decline, birth rates, and facility conditions in arriving at the overall conclusion regarding the overall health of the District.

In the district-wide financial statements, the District's activities include:

Governmental Activities - The District's basic services are considered to be governmental activities, including instruction, support services, athletics, and food service. Property taxes and State formula aid finance most of these activities.

The government-wide financial statements can be found on pages 1 - 2 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements - The fund financial statements provide detailed information about the most significant funds - not the District as a whole. The fund financial statements begin on page 3 and provide information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The District's two types of funds, governmental funds and fiduciary funds, use different accounting practices as further discussed in the Notes to Financial Statements.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

Reading Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Fiduciary Funds - The District is the fiduciary for various student group activities and scholarships. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets.

The basic fiduciary fund financial statement can be found on page 7 of this report.

Additional Information - The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to Financial Statements can be found on pages 8 - 18 of this report.

Government-Wide Financial Analysis

The following is a summary of Reading Community Schools' net assets as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 4,257,041	\$ 3,815,502
Non-current (capital) assets	<u>6,757,444</u>	<u>7,011,265</u>
Total assets	<u>11,014,485</u>	<u>10,826,767</u>
Current liabilities	3,502,589	3,096,730
Non-current liabilities	<u>6,699,226</u>	<u>6,943,907</u>
Total liabilities	<u>10,201,815</u>	<u>10,040,637</u>
Net assets:		
Invested in capital assets- net of related debt	128,718	127,838
Restricted	352,757	269,917
Unrestricted	<u>331,195</u>	<u>388,375</u>
Total net assets	<u>\$ 812,670</u>	<u>\$ 786,130</u>

The above analysis focuses on the net assets. The change in net assets of the School District's governmental activities is discussed below. The net assets differ from fund balances and a reconciliation appears on page 4.

Reading Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

A portion of the District's net assets reflects its investment in capital assets (i.e.: land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets, \$352,757, represents resources that are subject to external restrictions on how they may be used. In our case, these amounts are restricted for debt service and capital projects. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. The remaining balance of unrestricted net assets, \$331,195, may be used to meet the School District's ongoing obligations to citizens.

The following is a summary of the changes in net assets for the years ended June 30, 2008 and 2007:

Governmental Activities

	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 208,582	\$ 215,140
Operating grants	752,524	782,537
General revenues:		
Property taxes	1,347,594	1,255,306
Grants and State aid	5,999,777	5,963,180
Other	<u>104,080</u>	<u>118,343</u>
Total revenues	<u>8,412,557</u>	<u>7,336,829</u>
Functions/Program Expenses:		
Instruction	4,717,906	4,612,662
Support services	2,433,570	2,517,323
Food service activities	374,978	366,833
Athletic activities	235,366	230,933
Community services	24,917	26,217
Other	(3,719)	27,146
Interest on long-term debt	299,177	298,464
Depreciation (unallocated)	<u>303,822</u>	<u>390,858</u>
Total expenses	<u>8,386,017</u>	<u>8,469,436</u>
Increase (decrease) in net assets	<u>\$ 26,540</u>	<u>\$ (134,930)</u>

General Fund Budgeting and Operating Highlights

The District revised its General Fund budget in January 2008 and also in June 2008. During the fiscal year, all other District fund budgets were amended at least once. A schedule showing the General Fund budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these statements.

Reading Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

The General Fund actual revenue and other financing sources were \$7,482,117. That amount is above the amended budget estimate of \$7,444,306. The \$37,811 variance was due to larger than expected special education reimbursements from other local school districts and also to minor variances in several revenue accounts.

The actual expenditures and other financing uses of the General Fund were \$7,482,203, which is below the amended budget estimate of \$7,545,694. The \$63,491 variance was due to savings from energy conservation measures instituted by the District and also from minor variances in numerous expenditure accounts.

The General Fund had total revenues of \$ 7,482,117 and total expenditures of \$7,482,203 with a net change in fund balance of \$(86) and an ending fund balance of \$308,943, which includes \$13,504 as reserved [to meet the District financial obligations] and \$295,439 as unreserved.

Capital Asset and Debt Administration

Capital Assets - At the end of fiscal year 2008, Reading Community Schools had \$12,720,404 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$5,962,960 in depreciation has been taken over the years. We currently have a net book value of \$6,757,444.

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 33,000	\$ 33,000
Buildings and improvements	10,031,935	9,981,670
Site improvements	571,398	571,398
Buses and other vehicles	829,146	829,146
Furniture and equipment	<u>1,254,925</u>	<u>1,348,857</u>
Total capital assets	12,720,404	12,764,071
Less accumulated depreciation	<u>5,962,960</u>	<u>5,752,806</u>
Net capital assets	<u>\$ 6,757,444</u>	<u>\$ 7,011,265</u>

Long-Term Debt - At June 30, 2008, Reading Community Schools had total bonded debt outstanding of \$6,467,926 of which \$37,926 is Durant Resolution Bonds and \$220,000 is QZAB Bonds. Total governmental activities long-term debt consisted of:

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
General obligation debts (financed with property taxes)	\$ 6,210,000	\$ 6,495,000
Other bond obligations	<u>254,927</u>	<u>213,927</u>
Total bonds payable	6,467,926	6,708,927
Installment purchase agreements	160,800	174,500
Other	<u>70,500</u>	<u>60,480</u>
Total capital assets	<u>\$ 6,699,226</u>	<u>\$ 6,943,907</u>

The District continued to pay down its general obligation and other debt, netting a decrease of \$244,681 of outstanding bonds and other debt.

Reading Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

The proposed budget for 2008-2009 assumes a blended count of 905 students, which is 7 students below the blended count for 2007-2008.

The State of Michigan has proposed an increase in the per pupil allowance for 2008-2009 of \$110, which does not even keep up with inflation.

Because of the decrease in students and funding that is inadequate, Reading Community Schools laid off five teachers at the end of 2007-2008.

The REA Contract (teacher's contract) expired June 30, 2008. At this date, negotiations are in progress with the union representatives.

Requests for Information

This financial report is designed to provide a general overview of the Reading Community School's finances for our citizens, taxpayers, investors, and all those interested in the District's finances. Questions concerning any of the information provided in this report should be addressed to:

Teresa Coolman, Business Manager
Reading Community Schools
P.O. Box 330
519 W. Elm Street
Reading, MI 49274

Reading Community Schools
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 3,006,819
Receivables:	
Due from other governmental units	1,219,450
Inventories	17,268
Prepaid expenses	13,504
Capital assets less accumulated depreciation of \$5,962,960	<u>6,757,444</u>
Total assets	<u>11,014,485</u>
Liabilities:	
Accounts payable	184,551
State aid anticipation loan	2,750,000
Accrued payroll	336,813
Accrued interest	53,486
Other liabilities	177,739
Long-term liabilities:	
Bonds payable, due within one year	298,575
Other obligations, due within one year	84,275
Bonds payable, due in more than one year	6,169,351
Other obligations, due in more than one year	<u>147,025</u>
Total liabilities	<u>10,201,815</u>
Net Assets:	
Investment in capital assets - net of related debt	128,718
Restricted for debt service	352,757
Unrestricted	<u>331,195</u>
Total net assets	<u>\$ 812,670</u>

See Notes to Financial Statements.

Reading Community Schools
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expenses) Revenues and Changes in Net Assets
Primary Government				
Governmental activities:				
Instruction	\$ 4,717,906	\$ -	\$ 209,906	\$ (4,508,000)
Support services	2,433,570	3,976	288,065	(2,141,529)
Food service activities	374,978	113,880	234,385	(26,713)
Athletic activities	235,366	90,726	-	(144,640)
Community services	24,917	-	20,168	(4,749)
Other	(3,719)	-	-	3,719
Interest on long-term debt	299,177	-	-	(299,177)
Depreciation (unallocated)	<u>303,822</u>	<u>-</u>	<u>-</u>	<u>(303,822)</u>
Total governmental activities	<u>\$ 8,386,017</u>	<u>\$ 208,582</u>	<u>\$ 752,524</u>	<u>(7,424,911)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				760,217
Property taxes, levied for debt services				587,377
State aid not restricted to specific purposes				5,999,777
Interest and investment earnings				67,515
Other				<u>36,565</u>
Total general revenues				<u>7,451,451</u>
Change in Net Assets				26,540
Net Assets - Beginning of Year				<u>786,130</u>
Net Assets - End of Year				<u>\$ 812,670</u>

See Notes to Financial Statements.

Reading Community Schools
Balance Sheet
Governmental Funds
June 30, 2008

	Other Nonmajor Governmental		
	General	Funds	Total
<u>Assets</u>			
Cash and investments	\$ 2,545,326	\$ 461,493	\$ 3,006,819
Receivables:			
Due from other governmental units	1,219,450	-	1,219,450
Due from other funds	57,339	97,362	154,701
Inventory	-	17,268	17,268
Prepaid expenditures	13,504	-	13,504
Total assets	<u>\$ 3,835,619</u>	<u>\$ 576,123</u>	<u>\$ 4,411,742</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 184,551	\$ -	\$ 184,551
State aid anticipation loan	2,750,000	-	2,750,000
Due to other funds	97,362	57,339	154,701
Salaries payable	323,663	13,150	336,813
Accrued expenditures	171,100	2,712	173,812
Deferred revenue	-	3,927	3,927
Total liabilities	<u>3,526,676</u>	<u>77,128</u>	<u>3,603,804</u>
Fund Balances:			
Reserved for debt service	-	406,243	406,243
Reserved for inventory	-	17,268	17,268
Reserved for prepaid expenditures	13,504	-	13,504
Designated for special purposes	30,591	-	30,591
Unreserved/undesignated	<u>264,848</u>	<u>75,484</u>	<u>340,332</u>
Total fund balances	<u>308,943</u>	<u>498,995</u>	<u>807,938</u>
Total liabilities and fund balances	<u>\$ 3,835,619</u>	<u>\$ 576,123</u>	<u>\$ 4,411,742</u>

Reading Community Schools
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
Governmental Funds
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 807,938
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	\$ 12,720,404
Accumulated depreciation is	<u>(5,962,960)</u>
	6,757,444
Long-term liabilities not due and payable in the current period are not reported in the funds:	
Bonds payable	(6,467,926)
Installment purchase agreements	(160,800)
Compensated absences	(70,500)
Accrued interest payable is not included as a liability in governmental activities.	<u>(53,486)</u>
Total Net Assets - Governmental Activities	<u>\$ 812,670</u>

Reading Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General	Other Nonmajor Governmental Funds	Total
Revenues:			
Local sources	\$ 848,521	\$ 801,635	\$ 1,650,156
State sources	6,239,900	25,017	6,264,917
Federal sources	308,233	209,368	517,601
Interdistrict and other	<u>115,680</u>	<u>-</u>	<u>115,680</u>
Total revenues	<u>7,512,334</u>	<u>1,036,020</u>	<u>8,548,354</u>
Expenditures:			
Instruction	4,707,886	-	4,707,886
Support services	2,483,835	-	2,483,835
Athletic activities	-	235,366	235,366
Food service activities	-	374,978	374,978
Community services	24,917	-	24,917
Other	472	-	472
Debt service:			
Principal payments	71,090	285,000	356,090
Interest and fiscal charges	<u>13,248</u>	<u>287,505</u>	<u>300,753</u>
Total expenditures	<u>7,301,448</u>	<u>1,182,849</u>	<u>8,484,297</u>
Revenues Over (Under) Expenditures	<u>210,886</u>	<u>(146,829)</u>	<u>64,057</u>
Other Financing Sources (Uses):			
Operating transfers in	-	180,755	180,755
Operating transfers out	<u>(180,755)</u>	<u>-</u>	<u>(180,755)</u>
Total other financing sources (uses)	<u>(180,755)</u>	<u>180,755</u>	<u>-</u>
Net Changes in Fund Balances	30,131	33,926	64,057
Fund Balances - Beginning of Year	<u>309,029</u>	<u>465,069</u>	<u>774,098</u>
Fund Balances - End of Year	<u>\$ 339,160</u>	<u>\$ 498,995</u>	<u>\$ 838,155</u>

Reading Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 33,840
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures, in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	\$ (303,822)
Capital outlay	<u>50,265</u>
	(253,557)
The net effect of other miscellaneous transactions involving capital assets (i.e. sales) is to decrease net assets	
	(264)
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.	
	1,840
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.	
Debt issued	
Installment purchase agreements	(62,040)
Repayments:	
Bond holders	241,001
Principal on installment purchase agreements	<u>75,740</u>
	254,701
Compensated absences are reported as expenditures when financial resources are used in the governmental funds.	
	<u>(10,020)</u>
Change in Net Assets of Governmental Activities	<u>\$ 26,540</u>

Reading Community Schools
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2008

		<u>Agency Fund - Student Activities</u>
	<u>Assets</u>	
Cash and investments		\$ 48,818
Total assets		<u>\$ 48,818</u>
	<u>Liabilities</u>	
Due to student groups		\$ 48,818
Total liabilities		<u>\$ 48,818</u>

Reading Community Schools Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the Reading Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Reading Community Schools
Notes to Financial Statements**

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide Statements (Continued) - As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the District are the Athletics Fund and the Food Services Fund.

Debt Funds - Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures and the disbursements thereof on a particular bond issue. The District maintains the 2003 Debt Fund, the 1999 Debt Fund, the QZAB Debt Fund, and the Durant Debt Fund.

Reading Community Schools Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposits.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government of federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes – Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy years. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – Non-homestead	18.000
Debt Funds	4.300

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Reading Community Schools Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables and Payables (Continued) - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repairs and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Site improvements	20 years
Buses and other vehicles	10 years
Furniture and equipment	5 - 10 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations -- In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Reading Community Schools Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations (Continued) – In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

Reading Community Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

Note 3 – Deposits and Investments

At year-end, the School District's deposits and investments (see Note 1 for description) were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	\$ <u>3,006,819</u>	\$ <u>48,818</u>	\$ <u>3,055,637</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,140,687
Investments in pooled investments	1,914,850
Petty cash and cash on hand	<u>100</u>
Total	\$ <u>3,055,637</u>

Investment and Deposit Risk

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The School's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment in the pooled investments had an average maturity of less than one year.

Credit Risk -- State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The School's investment policy does not have specific limits in excess of State law on investment credit risk.

The District's investments are held in two types of pooled investment accounts. Investments under the interlocal agreement (MILAF) in the amount of \$1,627,231 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated AAM according to Standard & Poor's. The District's remaining investments, held in a Federated investment pool, also have a fair value equal to the value of the pool shares. These pooled funds were rated AAAM by Standard & Poor's.

Reading Community Schools
Notes to Financial Statements

Note 3 – Deposits and Investments (Continued)

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. The School has not adopted and State law does not require a policy for deposit custodial credit risk. As of year end, \$1,028,695 of the School's bank balance of \$1,264,852 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 – Receivables

Receivables at June 30, 2008, consist of the following:

Other governmental units (primarily Michigan Department of Education) \$1,219,450

Note 5 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ <u>33,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>33,000</u>
Total assets not being depreciated	<u>33,000</u>	<u>-</u>	<u>-</u>	<u>33,000</u>
Capital assets being depreciated:				
Buildings and improvements	9,981,670	50,265	-	10,031,935
Site improvements	571,398	-	-	571,398
Buses and other vehicles	829,146	-	-	829,146
Furniture and equipment	<u>1,348,857</u>	<u>-</u>	<u>93,932</u>	<u>1,254,925</u>
Subtotal	<u>12,731,071</u>	<u>50,265</u>	<u>93,932</u>	<u>12,687,404</u>
Accumulated depreciation:				
Buildings and improvements	3,855,846	223,284	-	4,079,130
Site improvements	379,296	26,720	-	406,016
Buses and other vehicles	540,681	47,716	-	588,397
Furniture and equipment	<u>976,983</u>	<u>6,102</u>	<u>93,668</u>	<u>889,417</u>
Subtotal	<u>5,752,806</u>	<u>303,822</u>	<u>93,668</u>	<u>5,962,960</u>
Net capital assets being depreciated	<u>6,978,265</u>	<u>(253,557)</u>	<u>(264)</u>	<u>6,724,444</u>
Net capital assets	<u>\$ 7,011,265</u>	<u>\$ (253,557)</u>	<u>\$ (264)</u>	<u>\$ 6,757,444</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$303,822. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Reading Community Schools
Notes to Financial Statements

Note 6 – Interfund Receivables, Payables, and Transfers

Amounts appearing as interfund receivables and payables arise when a fund pays for a good or service on behalf of another fund. The composition of interfund balances at year end is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
2003 Debt Fund	General Fund	\$ 22,175
Food Service Fund	General Fund	2,546
General Fund	Athletic Fund	57,339
1999 Debt Fund	General Fund	<u>72,641</u>
		<u>\$154,701</u>

Interfund Transfers:

During the current fiscal year, the General Fund transferred \$141,088 to the Athletics Fund, \$25,000 to the Food Services Fund, and \$14,667 to the QZAB Debt Fund. The purpose of the transfers was to subsidize the Athletics Fund activities and the Food Services Fund activities for the year and to set aside amounts due in the future for Qualified Zone Academy Bonds.

Note 7 – Prior Period Adjustment

The beginning balance of fund equity in the General Fund reflects a prior period adjustment to correct an error in reporting of Qualified Zone Academy Bonds. The correction was to set the bonds up in a separate debt fund, the QZAB Debt Fund.

Note 8 – Note Payable

During the year, the District issued a State Aid anticipation note dated August 2, 2007 maturing August 2, 2008 in the amount of \$2,750,000 with an interest rate of 4.00%.

<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>\$2,350,000</u>	<u>\$2,750,000</u>	<u>\$2,350,000</u>	<u>\$2,750,000</u>

The District has also approved the issuance of a State Aid anticipation note in the amount of \$2,800,000 with an interest rate of 2.8% issued in August, 2008 with a one-year maturity.

Reading Community Schools
Notes to Financial Statements

Note 9 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds	\$ 6,708,927	\$ -	\$ 241,001	\$ 6,467,926	\$ 298,575
Loans payable	174,500	62,040	75,740	160,800	73,700
Compensated absences	<u>60,480</u>	<u>10,020</u>	<u>-</u>	<u>70,500</u>	<u>10,575</u>
Total governmental activities	<u>\$ 6,943,907</u>	<u>\$ 72,060</u>	<u>\$ 316,741</u>	<u>\$ 6,699,226</u>	<u>\$ 382,850</u>

Annual debt service requirements to maturity on the above governmental bond and loan obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 372,275	\$ 283,757	\$ 656,032
2010	349,445	268,874	618,319
2011	352,623	254,544	607,167
2012	375,078	247,260	622,338
2013	349,305	224,576	573,881
2014-2018	1,950,000	880,820	2,830,820
2019-2023	1,815,000	430,650	2,245,650
2024-2027	<u>1,065,000</u>	<u>121,275</u>	<u>1,186,275</u>
Total	<u>\$ 6,628,726</u>	<u>\$ 2,711,756</u>	<u>\$ 9,340,482</u>

General obligation bonds and loan obligations consist of:

\$3,825,000 serial bonds due in annual installments of \$85,000 to \$275,000 through May 1, 2027; interest from 3.00% to 4.50%.	\$ 3,495,000
\$3,761,000 serial bonds due in annual installments of \$210,000 to \$230,000 through May 1, 2020; interest at 4.3% to 5.00%.	<u>2,715,000</u>
Subtotal	6,210,000
\$220,000 Qualified Zone Academy bonds due in annual installments of \$14,667 through December 20, 2018; these are no interest bonds; bond holders eligible for qualified tax credit.	220,000
\$64,230 Durant Non-Plaintiff serial bonds due in annual installments of \$3,575 to \$22,378 through May 15, 2013; interest at 4.70%.	<u>37,926</u>
Total bonded debt	<u>6,467,926</u>

Reading Community Schools **Notes to Financial Statements**

Note 9 – Long-Term Debt (Continued)

Installment Purchase Agreement – Century Bank and Trust due in annual installments of \$11,000 plus interest at 3.645%, maturity date of May 1, 2009.	\$ 11,000
Installment Purchase Agreement – County National Bank due in annual installments of \$11,000 plus interest at 4.30%, maturity date of October 10, 2010.	33,000
Installment Purchase Agreement – Century Bank & Trust, due in annual installments of \$12,700 plus interest at 4.39%, maturity date of August 22, 2011.	50,800
Installment Purchase Agreement – Century Bank & Trust, due in annual installments of \$23,000 plus interest at 4.34%, maturity date of May 1, 2009.	22,000
Installment Purchase Agreement – Century Bank & Trust, due in annual installments of \$12,000 plus interest at 4.45%, maturity date of May 1, 2010.	24,000
Installment Purchase Agreement – Century Bank & Trust, due in annual installments of \$5,000 plus interest at 4.19%, maturity date of May 1, 2012.	<u>20,000</u>
Total debt	<u>\$ 6,628,726</u>

Durant Non-Plaintiff Bond – Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$4,510 to \$30,305 associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, MI 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.30% of all wages over \$15,000.

Reading Community Schools

Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Funding Policy (Continued) – Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74% for the period from July 1, 2007 through September 30, 2007 and 16.72% from October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The School District's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were approximately \$686,000, \$717,000 and \$635,000, respectively.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Post-Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

Note 11 – Risk Management

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The School District has purchased commercial insurance for other risks of loss, including employee health and accident insurance.

Note 12 – Federal and State Grants

The District has received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Required Supplemental Information

Reading Community Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2008

	Budgeted Amounts		
	Original	Final	Actual
Revenues:			
Local sources	\$ 741,635	\$ 811,541	\$ 848,521
State sources	6,234,707	6,225,296	6,209,683
Federal sources	278,000	312,916	308,233
Interdistrict and other	10,004	94,554	115,680
Total revenues	<u>7,264,346</u>	<u>7,444,307</u>	<u>7,482,117</u>
Expenditures:			
Instruction:			
Basic programs	3,371,026	3,411,663	3,435,476
Added needs	1,252,104	1,281,727	1,272,410
Support Services:			
Pupil	137,596	131,563	132,897
Instructional staff	186,944	227,442	224,573
General administration	295,535	275,733	266,431
School administration	457,713	447,073	446,307
Business	209,205	230,756	226,788
Operation and maintenance	839,042	850,034	790,777
Pupil transportation	352,404	363,344	356,976
Security systems	-	39,088	39,086
Community Services	28,714	28,882	24,917
Other	89,542	85,390	84,810
Total expenditures	<u>7,219,825</u>	<u>7,372,695</u>	<u>7,301,448</u>
Revenues Over (Under) Expenditures	<u>44,521</u>	<u>71,612</u>	<u>180,669</u>
Other Financing Sources (Uses):			
Operating transfers out	<u>(173,429)</u>	<u>(166,088)</u>	<u>(180,755)</u>
Total other financing sources (uses)	<u>(173,429)</u>	<u>(166,088)</u>	<u>(180,755)</u>
Net Changes in Fund Balances	<u>(128,908)</u>	<u>(94,476)</u>	<u>(86)</u>
Fund Balances - Beginning of Year	<u>309,029</u>	<u>309,029</u>	<u>309,029</u>
Fund Balances - End of Year	<u>\$ 180,121</u>	<u>\$ 214,553</u>	<u>\$ 308,943</u>

Other Supplemental Information

Reading Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 150,066	\$ 311,427	\$ 461,493
Due from other funds	2,546	94,816	97,362
Inventory	<u>17,268</u>	<u>-</u>	<u>17,268</u>
Total assets	<u>\$ 169,880</u>	<u>\$ 406,243</u>	<u>\$ 576,123</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other funds	\$ 57,339	\$ -	\$ 57,339
Salaries payable	13,150	-	13,150
Accrued expenditures	2,712	-	2,712
Deferred revenue	<u>3,927</u>	<u>-</u>	<u>3,927</u>
Total liabilities	<u>77,128</u>	<u>-</u>	<u>77,128</u>
Fund Balances:			
Reserved for debt service	-	406,243	406,243
Reserved for inventory	17,268	-	17,268
Unreserved undesignated	<u>75,484</u>	<u>-</u>	<u>75,484</u>
Total fund balances	<u>92,752</u>	<u>406,243</u>	<u>498,995</u>
Total liabilities and fund balances	<u>\$ 169,880</u>	<u>\$ 406,243</u>	<u>\$ 576,123</u>

Reading Community Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Special Revenue Funds	Debt Service Funds	Total
Revenues:			
Local sources	\$ 206,906	\$ 594,729	\$ 801,635
State sources	25,017	-	25,017
Federal sources	<u>209,368</u>	<u>-</u>	<u>209,368</u>
Total revenues	<u>441,291</u>	<u>594,729</u>	<u>1,036,020</u>
Expenditures:			
Athletic activities	235,366	-	235,366
Food service activities	374,978	-	374,978
Debt service	<u>-</u>	<u>572,505</u>	<u>572,505</u>
Total expenditures	<u>610,344</u>	<u>572,505</u>	<u>1,182,849</u>
Revenues Over (Under) Expenditures	<u>(169,053)</u>	<u>22,224</u>	<u>(146,829)</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>166,088</u>	<u>14,667</u>	<u>180,755</u>
Total other financing sources (uses)	<u>166,088</u>	<u>14,667</u>	<u>180,755</u>
Net Changes in Fund Balances	(2,965)	36,891	33,926
Fund Balances - Beginning of Year	<u>95,717</u>	<u>369,352</u>	<u>465,069</u>
Fund Balances - End of Year	<u>\$ 92,752</u>	<u>\$ 406,243</u>	<u>\$ 498,995</u>

Reading Community Schools
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2008

	Athletics Fund	Food Services Fund	Total
<u>Assets</u>			
Cash and investments	\$ 114,617	\$ 35,449	\$ 150,066
Due from other funds	-	2,546	2,546
Inventory	-	17,268	17,268
Total assets	<u>\$ 114,617</u>	<u>\$ 55,263</u>	<u>\$ 169,880</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other funds	\$ 57,339	\$ -	\$ 57,339
Salaries payable	2,950	10,200	13,150
Accrued expenditures	226	2,486	2,712
Deferred revenue	-	3,927	3,927
Total liabilities	<u>60,515</u>	<u>16,613</u>	<u>77,128</u>
Fund Balances:			
Reserved for inventory	-	17,268	17,268
Unreserved: undesignated	54,102	21,382	75,484
Total fund balances	<u>54,102</u>	<u>38,650</u>	<u>92,752</u>
Total liabilities and fund balances	<u>\$ 114,617</u>	<u>\$ 55,263</u>	<u>\$ 169,880</u>

Reading Community Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2008

	Athletics Fund	Food Services Fund	Total
Revenues:			
Local sources:			
Interest earnings	\$ 1,705	\$ 595	\$ 2,300
Food sales	-	113,880	113,880
Athletics	<u>90,726</u>	<u>-</u>	<u>90,726</u>
Total local sources	<u>92,431</u>	<u>114,475</u>	<u>206,906</u>
State sources:			
Restricted	<u>-</u>	<u>25,017</u>	<u>25,017</u>
Total State sources	<u>-</u>	<u>25,017</u>	<u>25,017</u>
Federal sources:			
Received through State	<u>-</u>	<u>209,368</u>	<u>209,368</u>
Total federal sources	<u>-</u>	<u>209,368</u>	<u>209,368</u>
Total revenues	<u>92,431</u>	<u>348,860</u>	<u>441,291</u>
Expenditures:			
Salaries	114,413	115,684	230,097
Employee benefits	23,705	97,773	121,478
Purchased services	21,058	2,739	23,797
Supplies and materials	57,515	145,951	203,466
Other	<u>18,675</u>	<u>12,831</u>	<u>31,506</u>
Total expenditures	<u>235,366</u>	<u>374,978</u>	<u>610,344</u>
Excess of Revenues Over (Under) Expenditures	<u>(142,935)</u>	<u>(26,118)</u>	<u>(169,053)</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>141,088</u>	<u>25,000</u>	<u>166,088</u>
Total other financing sources (uses)	<u>141,088</u>	<u>25,000</u>	<u>166,088</u>
Net Changes in Fund Balances	(1,847)	(1,118)	(2,965)
Fund Balances - Beginning of Year	<u>56,949</u>	<u>39,768</u>	<u>95,717</u>
Fund Balances - End of Year	<u>\$ 54,102</u>	<u>\$ 38,650</u>	<u>\$ 92,752</u>

Reading Community Schools
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2008

	Durant Debt Fund	1999 Debt Fund	2003 Debt Fund	QZAB Debt Fund	Total
<u>Assets</u>					
Cash and investments	\$ -	\$ 130,637	\$ 121,822	\$ 58,968	\$ 311,427
Short-term investments	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Due from other funds	-	72,641	22,175	-	94,816
Total assets	<u>\$ -</u>	<u>\$ 203,278</u>	<u>\$ 143,997</u>	<u>\$ 58,968</u>	<u>\$ 406,243</u>
<u>Liabilities and Fund Balances</u>					
Fund Balances:					
Reserved for debt service	-	203,278	143,997	58,968	406,243
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Reading Community Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended June 30, 2008

	Durant Debt Fund	1999 Debt Fund	2003 Debt Fund	QZAB Debt Fund	Total
Revenues:					
Local Sources:					
Taxes	\$ -	\$ 340,778	\$ 246,599	\$ -	\$ 587,377
Interest	-	5,202	1,957	193	7,352
Total local sources	-	345,980	248,556	193	594,729
 Total revenues	-	345,980	248,556	193	594,729
Expenditures:					
Redemption of principal	-	200,000	85,000	-	285,000
Interest on debt	-	135,675	151,280	-	286,955
Other	-	300	250	-	550
Total expenditures	-	335,975	236,530	-	572,505
 Revenues Over (Under) Expenditures	-	10,005	12,026	193	22,224
 Other Financing Sources (Uses):					
Operating transfers in	-	-	-	14,667	14,667
Total other financing sources (uses)	-	-	-	14,667	14,667
 Net Changes in Fund Balances	-	10,005	12,026	14,860	36,891
 Fund Balances - Beginning of Year	-	193,273	131,971	44,108	369,352
 Fund Balances - End of Year	\$ -	\$ 203,278	\$ 143,997	\$ 58,968	\$ 406,243

Reading Community Schools
Comparative Balance Sheets
General Fund
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Cash and investments	\$ 2,545,326	\$ 2,179,228
Due from other governmental units	1,219,450	1,187,780
Due from other funds	57,339	46,813
Prepaid expenditures	<u>13,504</u>	<u>12,360</u>
Total assets	<u>\$ 3,835,619</u>	<u>\$ 3,426,181</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts payable	\$ 184,551	\$ 226,355
State aid anticipation note	2,750,000	2,350,000
Due to other funds	97,362	50,560
Salaries payable	323,663	298,840
Accrued expenditures	171,100	147,288
Other liabilities	<u>-</u>	<u>43,864</u>
Total liabilities	<u>3,526,676</u>	<u>3,116,907</u>
Fund Balances:		
Reserved for prepaid expenditures	13,504	12,360
Designated for special purposes	30,591	-
Unreserved/undesignated	<u>264,848</u>	<u>296,914</u>
Total fund balances	<u>308,943</u>	<u>309,029</u>
 Total liabilities and fund balances	 <u>\$ 3,835,619</u>	 <u>\$ 3,116,907</u>

Reading Community Schools
Statements of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
General Fund
For the Year Ended June 30, 2008
(With Comparative Amounts for the Year Ended June 30, 2007)

	<u>2008</u>		Variance -	
	<u>Budget</u>	<u>Actual</u>	Favorable	<u>2007</u>
			(Unfavorable)	
Revenues:				
Local Sources:				
Property tax	\$ 723,805	\$ 760,217	\$ 36,412	\$ 709,567
Earnings on investment and deposits	55,000	57,863	2,863	51,729
Rentals	3,694	3,725	31	3,605
Miscellaneous	21,281	26,716	5,435	75,123
Total local sources	<u>803,780</u>	<u>848,521</u>	<u>44,741</u>	<u>840,024</u>
State Sources:				
Unrestricted	6,015,052	5,999,777	(15,275)	5,963,180
Restricted	211,244	209,906	(1,338)	224,256
Total State sources	<u>6,226,296</u>	<u>6,209,683</u>	<u>(16,613)</u>	<u>6,187,436</u>
Federal Sources:				
Received through State	293,473	288,065	(5,408)	304,433
Received through I.S.D.	18,443	20,168	1,725	6,276
Total federal sources	<u>311,916</u>	<u>308,233</u>	<u>(3,683)</u>	<u>310,709</u>
Interdistrict Sources:				
County vocational education reimbursement	32,513	43,540	11,027	19,800
Total interdistrict sources	<u>32,513</u>	<u>43,540</u>	<u>11,027</u>	<u>19,800</u>
Other Transactions:				
Sale of fixed assets	7,761	10,100	2,339	6,295
Loan proceeds	62,040	62,040	-	131,500
Total other transactions	<u>69,801</u>	<u>72,140</u>	<u>2,339</u>	<u>137,795</u>
Total revenues	<u>7,444,306</u>	<u>7,482,117</u>	<u>37,811</u>	<u>7,495,764</u>

Reading Community Schools
Statements of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
General Fund
For the Year Ended June 30, 2008
(With Comparative Amounts for the Year Ended June 30, 2007)

	<u>2008</u>		Variance -	
	<u>Budget</u>	<u>Actual</u>	Favorable	<u>2007</u>
			(Unfavorable)	
Expenditures:				
Instruction:				
Basic Programs:				
Elementary				
Salaries	\$ 1,163,794	\$ 1,202,907	\$ (39,113)	\$ 1,128,032
Employee benefits	609,097	606,159	2,938	637,971
Purchased services	14,436	14,648	(212)	13,267
Supplies and materials	26,941	25,194	1,747	25,698
Other	<u>27,788</u>	<u>27,960</u>	<u>(172)</u>	<u>-</u>
Total elementary	<u>1,842,056</u>	<u>1,876,868</u>	<u>(34,812)</u>	<u>1,804,968</u>
Middle/Junior High				
Salaries	349,868	376,956	(27,088)	388,175
Employee benefits	189,407	195,293	(5,886)	194,028
Supplies and materials	5,078	5,077	1	9,334
Other	<u>9,836</u>	<u>9,836</u>	<u>-</u>	<u>-</u>
Total middle/junior high	<u>554,189</u>	<u>587,162</u>	<u>(32,973)</u>	<u>591,537</u>
High School				
Salaries	619,556	585,515	34,041	597,142
Employee benefits	313,998	303,277	10,721	342,606
Purchased services	20,518	20,737	(219)	25,135
Supplies and materials	24,479	23,115	1,364	27,515
Other	<u>36,867</u>	<u>38,802</u>	<u>(1,935)</u>	<u>-</u>
Total high school	<u>1,015,418</u>	<u>971,446</u>	<u>43,972</u>	<u>992,398</u>
Total basic programs	<u>3,411,663</u>	<u>3,435,476</u>	<u>(23,813)</u>	<u>3,388,903</u>
Added Needs:				
Special Education				
Salaries	402,168	398,142	4,026	384,650
Employee benefits	205,747	205,883	(136)	200,400
Purchased services	3,600	3,600	-	14,603
Supplies and materials	1,863	1,791	72	2,609
Other	<u>13,070</u>	<u>12,979</u>	<u>91</u>	<u>-</u>
Total special education	<u>626,448</u>	<u>622,395</u>	<u>4,053</u>	<u>602,262</u>

Reading Community Schools
Statements of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
General Fund
For the Year Ended June 30, 2008
(With Comparative Amounts for the Year Ended June 30, 2007)

	2008		Variance -	
	Budget	Actual	Favorable	2007
			(Unfavorable)	
Instruction (Continued):				
Added Needs (Continued):				
Compensatory Education				
Salaries	\$ 261,844	\$ 258,254	\$ 3,590	\$ 322,919
Employee benefits	153,143	145,953	7,190	169,633
Purchased services	3,140	3,440	(300)	3,140
Supplies and materials	25,792	31,073	(5,281)	27,023
Other	<u>2,896</u>	<u>2,893</u>	<u>3</u>	<u>-</u>
Total compensatory education	<u>446,815</u>	<u>441,613</u>	<u>5,202</u>	<u>522,715</u>
Vocational Education				
Salaries	59,167	59,167	-	32,194
Employee benefits	24,226	24,225	1	8,131
Purchased services	122,660	122,660	-	101,038
Supplies and materials	<u>2,411</u>	<u>2,350</u>	<u>61</u>	<u>832</u>
Total other added needs	<u>208,464</u>	<u>208,402</u>	<u>62</u>	<u>142,195</u>
Total added needs	<u>1,281,727</u>	<u>1,272,410</u>	<u>9,317</u>	<u>1,267,172</u>
Total instruction	<u>4,693,390</u>	<u>4,707,886</u>	<u>(14,496)</u>	<u>4,656,075</u>
Support Services:				
Pupil:				
Attendance Services				
Salaries	4,401	4,451	(50)	-
Purchased services	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,401</u>
Total attendance services	<u>4,401</u>	<u>4,451</u>	<u>(50)</u>	<u>4,401</u>
Guidance Services				
Salaries	85,434	86,314	(880)	81,291
Employee benefits	<u>40,796</u>	<u>41,158</u>	<u>(362)</u>	<u>40,356</u>
Total guidance services	<u>126,230</u>	<u>127,472</u>	<u>(1,242)</u>	<u>121,647</u>

Reading Community Schools
Statements of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
General Fund
For the Year Ended June 30, 2008
(With Comparative Amounts for the Year Ended June 30, 2007)

	<u>2008</u>		<u>Variance -</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>	<u>2007</u>
			<u>(Unfavorable)</u>	
Support Services (Continued):				
Pupil (Continued)				
Health Services				
Salaries	\$ -	\$ -	\$ -	\$ 425
Employee benefits	-	-	-	109
Purchased services	180	230	(50)	230
Supplies and materials	<u>752</u>	<u>744</u>	<u>8</u>	<u>622</u>
Total health services	<u>932</u>	<u>974</u>	<u>(42)</u>	<u>1,386</u>
 Total pupil	 <u>131,563</u>	 <u>132,897</u>	 <u>(1,334)</u>	 <u>127,434</u>
 Instructional Staff:				
Improvement of Instruction				
Salaries	16,879	17,805	(926)	25,320
Employee benefits	4,338	4,361	(23)	6,254
Purchased services	19,156	17,271	1,885	20,326
Supplies and materials	2,680	2,679	1	702
Other	<u>-</u>	<u>5,997</u>	<u>(5,997)</u>	<u>-</u>
Total improvement of instruction	<u>43,053</u>	<u>48,113</u>	<u>(5,060)</u>	<u>52,602</u>
 Library				
Salaries	15,446	15,017	429	30,032
Employee benefits	3,335	3,185	150	4,338
Supplies and materials	<u>4,377</u>	<u>3,344</u>	<u>1,033</u>	<u>4,492</u>
Total library	<u>23,158</u>	<u>21,546</u>	<u>1,612</u>	<u>38,862</u>
 Computer Assisted Instruction				
Salaries	22,971	25,357	(2,386)	18,212
Employee benefits	5,404	6,260	(856)	4,524
Purchased services	9,869	10,657	(788)	27,991
Supplies and materials	61,916	59,109	2,807	48,415
Capital outlay	37,390	37,390	-	74,423
Other	<u>15,925</u>	<u>16,141</u>	<u>(216)</u>	<u>-</u>
Total computer assisted instruction	<u>153,475</u>	<u>154,914</u>	<u>(1,439)</u>	<u>173,565</u>
 Total instructional staff	 <u>219,686</u>	 <u>224,573</u>	 <u>(4,887)</u>	 <u>265,029</u>

Reading Community Schools
 Statements of Revenues, Expenditures and Changes
 in Fund Balances - Budget to Actual
 General Fund
 For the Year Ended June 30, 2008
 (With Comparative Amounts for the Year Ended June 30, 2007)

	<u>2008</u>		<u>Variance -</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>	<u>2007</u>
			<u>(Unfavorable)</u>	
Support Services (Continued):				
General Administration:				
Board of Education				
Salaries	\$ 5,541	\$ 6,159	\$ (618)	\$ 7,912
Employee benefits	824	710	114	768
Purchased services	45,461	42,631	2,830	55,703
Other	11,976	9,215	2,761	16,778
Total board of education	<u>63,802</u>	<u>58,715</u>	<u>5,087</u>	<u>81,161</u>
Executive Administration				
Salaries	77,180	77,180	-	129,600
Employee benefits	123,082	118,944	4,138	63,347
Purchased services	9,463	9,354	109	7,653
Supplies and materials	2,136	2,039	97	3,026
Other	70	199	(129)	2,697
Total executive administration	<u>211,931</u>	<u>207,716</u>	<u>4,215</u>	<u>206,323</u>
Total general administration	<u>275,733</u>	<u>266,431</u>	<u>9,302</u>	<u>287,484</u>
School Administration:				
Office of the Principal				
Salaries	295,928	295,593	335	290,452
Employee benefits	149,127	148,657	470	145,649
Purchased services	721	760	(39)	4,722
Supplies and materials	204	203	1	266
Other	1,094	1,094	-	1,059
Total office of the principal	<u>447,074</u>	<u>446,307</u>	<u>767</u>	<u>442,148</u>
Total school administration	<u>447,074</u>	<u>446,307</u>	<u>767</u>	<u>442,148</u>
Business:				
Fiscal Services				
Salaries	56,823	56,822	1	55,848
Employee benefits	28,408	27,023	1,385	29,951
Purchased services	8,000	6,036	1,964	8,915
Supplies and materials	2,000	1,483	517	2,534
Other	378	279	99	511
Total fiscal services	<u>95,609</u>	<u>91,643</u>	<u>3,966</u>	<u>97,759</u>

Reading Community Schools
Statements of Revenues, Expenditures and Changes
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General Fund
For the Year Ended June 30, 2008
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	<u>2008</u>		<u>Variance -</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>	<u>2007</u>
			<u>(Unfavorable)</u>	
Support Services (Continued):				
Business (Continued):				
Other Business Services				
Purchased services	\$ 9,227	\$ 9,227	\$ -	\$ 9,659
Other	<u>125,920</u>	<u>125,918</u>	<u>2</u>	<u>111,400</u>
Total other business services	<u>135,147</u>	<u>135,145</u>	<u>2</u>	<u>121,059</u>
Total business	<u>230,756</u>	<u>226,788</u>	<u>3,968</u>	<u>218,818</u>
Operation and Maintenance				
Salaries	270,741	259,748	10,993	252,677
Employee benefits	171,674	159,869	11,805	177,406
Purchased services	147,468	141,349	6,119	144,574
Supplies and materials	234,397	204,196	30,201	257,937
Capital outlay	25,615	25,615	-	-
Other	<u>138</u>	<u>-</u>	<u>138</u>	<u>-</u>
Total operation and maintenance	<u>850,033</u>	<u>790,777</u>	<u>59,256</u>	<u>832,594</u>
Pupil Transportation Services				
Salaries	181,027	177,065	3,962	173,670
Employee benefits	57,196	52,737	4,459	52,481
Purchased services	14,150	12,712	1,438	11,272
Supplies and materials	110,721	114,223	(3,502)	98,215
Capital outlay	-	-	-	63,500
Other	<u>250</u>	<u>239</u>	<u>11</u>	<u>464</u>
Total pupil transportation services	<u>363,344</u>	<u>356,976</u>	<u>6,368</u>	<u>399,602</u>
Planning, Research, and Development				
Salaries	-	-	-	1,400
Employee benefits	-	-	-	<u>355</u>
Total planning, research and development	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,755</u>
Security Systems				
Purchased services	5,868	5,867	1	-
Capital outlay	<u>33,220</u>	<u>33,219</u>	<u>1</u>	<u>-</u>
Total security systems	<u>39,088</u>	<u>39,086</u>	<u>2</u>	<u>-</u>
Total support services	<u>2,557,277</u>	<u>2,483,835</u>	<u>73,442</u>	<u>2,574,864</u>

Reading Community Schools
Statements of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
General Fund
For the Year Ended June 30, 2008
(With Comparative Amounts for the Year Ended June 30, 2007)

	2008		Variance -	
	Budget	Actual	Favorable	2007
			(Unfavorable)	
Community Services:				
Custody and Care of Children				
Salaries	\$ 21,239	\$ 18,198	\$ 3,041	\$ 19,427
Employee benefits	5,218	4,433	785	4,883
Supplies and materials	-	-	-	218
Other	2,425	2,286	139	1,689
Total custody and care of children	28,882	24,917	3,965	26,217
 Total community services	 28,882	 24,917	 3,965	 26,217
 Other Transactions:				
Other	1,000	472	528	56,694
Principal and interest payments on loans	99,057	84,338	14,719	83,097
Total other transactions	100,057	84,810	15,247	139,791
 Total expenditures	 7,379,606	 7,301,448	 78,158	 7,396,947
 Revenues Over (Under) Expenditures	 64,700	 180,669	 115,969	 98,817
 Other Financing Sources (Uses):				
Operating transfers out:				
Athletics	(141,088)	(141,088)	-	(141,088)
Food services	(25,000)	(25,000)	-	(25,000)
Debt service	-	(14,667)	(14,667)	-
Total other financing sources (uses)	(166,088)	(180,755)	(14,667)	(166,088)
 Net Changes in Fund Balances	 (101,388)	 (86)	 101,302	 (67,271)
 Fund Balances - Beginning of Year	 309,029	 309,029	 -	 376,300
 Fund Balances - End of Year	 \$ 207,641	 \$ 308,943	 \$ 101,302	 \$ 309,029

Reading Community Schools
Schedule of Bonded Indebtedness
June 30, 2008

2003 School Building and Site Bonds				Fiscal Year			Bonds	
Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Requirements	Principal Requirements	Outstanding June 30, 2008		
February 1, 2003	\$ 3,825,000							
		3.000%	05/01/09	\$ 148,730	\$ 85,000	\$ 85,000		
		3.300%	05/01/10	146,180	85,000	85,000		
		3.550%	05/01/11	143,376	95,000	95,000		
		3.700%	05/01/12	140,002	110,000	110,000		
		3.800%	05/01/13	135,932	120,000	120,000		
		3.950%	05/01/14	131,372	130,000	130,000		
		4.000%	05/01/15	126,238	145,000	145,000		
		4.150%	05/01/16	120,438	160,000	160,000		
		4.150%	05/01/17	113,798	175,000	175,000		
		4.300%	05/01/18	106,536	190,000	190,000		
		4.300%	05/01/19	98,366	205,000	205,000		
		4.450%	05/01/20	89,550	220,000	220,000		
		4.450%	05/01/21	79,760	230,000	230,000		
		4.500%	05/01/22	69,526	235,000	235,000		
		4.500%	05/01/23	58,950	245,000	245,000		
		4.500%	05/01/24	47,926	255,000	255,000		
		4.500%	05/01/25	36,450	265,000	265,000		
		4.500%	05/01/26	24,526	270,000	270,000		
		4.500%	05/01/27	12,376	275,000	275,000		
						<u>\$ 3,495,000</u>		

Durant Bonds				Fiscal Year			Bonds	
Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Requirements	Principal Requirements	Outstanding June 30, 2008		
September 14, 1998	\$ 64,230							
		4.700%	05/15/09	\$ 936	\$ 3,575	\$ 3,575		
		4.700%	05/15/10	766	3,745	3,745		
		4.700%	05/15/11	587	3,923	3,923		
		4.700%	05/15/12	7,927	22,378	22,378		
		4.700%	05/15/13	205	4,305	4,305		
						<u>\$ 37,926</u>		

Reading Community Schools
Schedule of Bonded Indebtedness
June 30, 2008
(Continued)

1999 Refunding Bonds				Fiscal Year		Bonds
Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Interest Requirements	Principal Requirements	Outstanding June 30, 2008
May 11, 1999	\$3,765,000					
		4.300%	05/01/09	\$ 127,174	\$ 210,000	\$ 210,000
		4.350%	05/01/10	118,146	220,000	220,000
		4.450%	05/01/11	108,574	225,000	225,000
		4.500%	05/01/12	98,562	225,000	225,000
		4.550%	05/01/13	88,438	225,000	225,000
		4.600%	05/01/14	78,200	230,000	230,000
		4.800%	05/01/15	67,620	230,000	230,000
		4.800%	05/01/16	56,580	230,000	230,000
		4.800%	05/01/17	45,540	230,000	230,000
		5.000%	05/01/18	34,500	230,000	230,000
		5.000%	05/01/19	23,000	230,000	230,000
		5.000%	05/01/20	11,500	230,000	230,000
						<u>\$ 2,715,000</u>
Qualified Zone Academy Bonds				Fiscal Year	Amount of Annual Maturity	Bonds Outstanding June 30, 2008
Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Interest Requirements		
December 20, 2003	\$220,000					
		0.000%	12/20/18	\$ -	\$ 220,000	\$ 220,000
						<u>\$ 220,000</u>



October 9, 2008

Board of Education
Reading Community Schools
Reading, Michigan

We have audited the financial statements of Reading Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- An asset appraisal was done in prior years, which was used to establish the bulk of your fixed asset balances to be recorded in the Statement of Net Assets.
- Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$70,000.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process. Management has approved all adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.